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UNION BUDGET 2013

"Waiting for a roar,
but an opportunity missed once more"

Contents

Budget Impression

Waiting for a roar, but an opportunity missed once more:

As everyone had rightly anticipated that this being an election year and the government really not faring well at all, the budget would include a lot of provisions for the rural population to amass its vote bank, thereby giving an extremely populist budget. This is quite evident by the fact that funds allocated to rural India being almost 50% higher than the previous year amounting to Rs. 80,000 crore's approximately.

Well before penning down my thoughts, what we need to understand is that the Indian Economy was facing several challenges of high fiscal and current account deficits, slower growth both domestic and global, fearful investment climate, lack of new job creations and widening inequality of wealth amongst its citizens.
In such a gloomy scenario, keeping the fiscal deficit at targeted rate of 5.2% of the GDP is truly commendable. However, the targeted fiscal deficit is at a cost of trimming of expenditure which is never good for a growing economy. In order to raise the resources to fund its budget the finance minister has gone after those who are relatively well placed in the society. However, in my opinion the FM should have introduced some more measures to widen the bracket of tax payers. It is quite shocking that only 4 to 5 % of the entire population files their return of Income. The budget introduces very few proposals that are lucrative for setting up industries. This was the need of the hour and the FM has definitely missed on this by giving sops only to people who are inclined to set up industries in excess of Rs 100 crores. An extremely welcome initiative introduced which most of us had not anticipated was the benefit to the small and medium enterprises by way of permitting them to list on the SME exchange without being required to make an IPO. There are certain good proposals for the textile industry but one feels that is not enough for overall markets.

Another situation which was quite bad for the overall economy was the liquidity position in the market. I am sure every one of us are facing major issues on this front. He has introduced some welcome steps on this front by allocating funds ensuring some liquidity is infused in the markets. However, on account of government's fiscal deficit and borrowings continuing to remain high, possibilities of interest rates coming down seem quiet unlikely. This means that the stock markets will continue finding it difficult to give gains to its investors. Deferring the GAAR provisions till FY 2015-2016 is definitely on the lines everyone had expected. Also few provisions that are introduced in this budget clearly shows the intention of the government to promote FDI. However, the requirement of Tax Residency Certificate for people investing through Mauritius route and such tinkering of beneficial provisions will definitely make the overseas investors quite jittery. One has to understand that India still is at a stage where it depends a lot on foreign capital and if there is a sudden flight of capital out of India it will make things only worst.

The FM has not given any conclusive indications on the implementation of GST, DTC and IFRS. Missing out on GST implantation is costing this country a lot and I hope that some action is taken on this soon.

Direct Tax Proposals
"Rate Card" (1/3)

For Individuals, HUF, AOP & BOI

Gross Total Income	Tax Rate
Upto Rs. 2,00,000	Nil
Rs. 2,00,001 to Rs. 5,00,000	10%
Rs. 5,00,001 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

In case of Resident Individual of the age 60-80 years

Gross Total Income	Tax Rate
Upto Rs. 2,50,000	Nil
Rs. 2,50,001 to Rs. 5,00,000	10%
Rs. 5,00,001 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

In case of Resident Individual of the age 80 years and above (Very Senior Citizen)

Gross Total Income	Tax Rate
Upto Rs. 5,00,000	Nil
Rs. 5,00,001 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

a) Education cess is applicable @ 3% on income tax.

b) Relief for Tax Payers in the first bracket of Rs. 2 lakhs to5 lakhs – A tax credit of Rs. 2000 or tax payable whichever is less to individuals with total income upto Rs.5 lakhs.

Corporate Tax Rate Card

Particulars	Tax Rate
Tax Rate for Domestic Companies	30%
Tax Rate for Foreign Companies	40%
Tax Rate for Partnership Firms, LLP's, AOP and BOI	30%
Societies Other Than Co-operative Societies	*30%*

Surcharge

Assessee	Income range	Surcharge
Domestic Company	Up to Rs. 1 Cr Rs. 1 to Rs. 10 Cr Above Rs. 10 Cr	Nil 5% 10%
Foreign Company	Up to Rs. 1 Cr Rs. 1 to Rs. 10 Cr Above Rs. 10 Cr	Nil 2% 5%
Non corporate	Up to Rs. 1 Cr Above Rs. 1 Cr	Nil 10%

For Co-operative Societies and Non Profit Organizations

Particulars	Tax Rate
Upto Rs. 10,000	10%
Rs. 10,001 to Rs. 20,000	20%
Above Rs.20,001	30%

Direct Tax Proposals

“Rate Card” (2/3)

Rates of STT (Securities Transaction Tax) – *Effective from June 1, 2013

Sr. No.	Nature of taxable securities transaction	Payable by	Existing Rates (%)	Proposed Rates (%) *
1	Delivery based purchase of units of an equity oriented fund entered into in a recognized stock exchange	Purchaser	0.1	Nil
2	Delivery based sale of units of an equity oriented fund entered into in a recognized stock exchange	Seller	0.1	0.001
3	Sale of futures in securities	Seller	0.017	0.01
4	Sale of unit of an equity oriented fund to a mutual fund	Seller	0.25	0.001

Rates of CTT (Commodities Transaction Tax)

Sr. No.	Taxable commodities transaction	Payable by	Rate (%)
1	Sale of commodity derivative	Seller	0.01

Capital Gain Rates

<table>
<tr><th>Gross Total Income</th><th>Short Term</th><th>Long term</th></tr>
<tr><td>Purchase sale of equity shares on which STT has been paid</td><td>15%</td><td>Nil</td></tr>
<tr><td colspan="3"><u>Sale of any other asset other than as mentioned above</u></td></tr>
<tr><td>Individuals</td><td colspan="2">As per the slab rates</td></tr>
<tr><td>Firms & LLP's</td><td>30%</td><td rowspan="4">20 % with indexation: 10% without indexation</td></tr>
<tr><td>Companies</td><td>30%</td></tr>
<tr><td>Foreign Companies</td><td>40%</td></tr>
<tr><td>Local authority</td><td>30%</td></tr>
<tr><td>Co-operative societies</td><td colspan="2">As per the slab rates</td></tr>
<tr><td>Overseas Financial Organizations specified in section 115AB</td><td>40%(corporate)
30%(Non-Corporate)</td><td>10%</td></tr>
<tr><td>FII”s</td><td>30%</td><td>10%</td></tr>
</table>

Direct Tax Proposals “Rate Card” (3/3)

Withholding Rates For Non-Residents

Nature of Income	Tax Rates
Dividend	20%
Interest received on loans given in foreign currency	20%
Income received in respect of units purchased in foreign currency of specified mutual funds/ UTI	20%
Sports persons and entertainers	20% (earlier 10%)
Interest received from an infrastructure debt fund	5%
Interest on FCCB, FCEB/ Dividend on GDR"'s	10%
Royalty / Fees for technical services	25%

Note: Tax rate for Royalty / Fees for technical services have been increased from 10% to 25%. (w.e.f. April 1, 2014)

- **Presumptive tax for all resident assessee:**

Business	Rate at which income is presumed
Small business*	8% of gross turnover/receipts
Plying, hiring or leasing goods carriages (person should not own over ten goods carriage at any time during the pervious year)	Rs. 5,000 per month/part of month for each heavy goods vehicle. Rs. 4,500 per month/part of month for each goods vehicle other than heavy goods vehicle.

- **Mutual funds are liable to pay tax on distributed income as mentioned hereunder:**

Assessee	Till May 31, 2013	From June 1, 2013
Individual/HUF		
Debt Fund	12.5%	25%
Money Market or Liquid Fund	25%	
Other than Individual/HUF	30%	30%
Non-resident/ Foreign Company	5%	5%

Direct Tax Proposals

“Personal Taxes”

(1/1)

- No change in Personal Tax Structure.
- Tax credit relief of Rs. 2,000/- or tax payable whichever is lower will be given to Individual assessee falling in the Income bracket up to Rs. 5 lakhs.
- Surcharge is now applicable to non corporate assessee also @ 10% if income exceeds Rs. 1 crore.
- Impetus to first-time home buyers by way of giving them the additional one time deduction for interest on housing loan of Rs. 1 lakh (over and above the existing deduction of Rs. 1.5 lakhs) subject to following conditions:
  - Interest on housing loans sanctioned during the F.Y. 2013-14 not exceeding Rs. 25 lakhs.
  - Value of property not exceeding Rs. 40 lakhs.
  - Individual does not own any residential house property on the date of sanction.
  - Unutilised addition/deduction to be carried forward in the FY 2014-15.
- Deduction of health insurance payments up to Rs. 15,000 extended to other Central and State Government Health Schemes (to be notified) similar to the existing Central Government Health Scheme (CGHS).
- Rajiv Gandhi Equity Savings Scheme applicable to investors liberalized:
  - Investment in equity oriented mutual funds also made eligible
  - Deduction allowed over 3 consecutive years (previously 1 year)
  - Deduction presently available to new retail investors.
  - Eligible limit for gross total income of the investor for this purpose proposed to be enhanced from Rs. 10 lakhs to Rs. 12 lakhs.
- TDS @ 1% introduced for transfer of immovable property in excess of Rs. 50 lakhs on buyer at the time of making payment or crediting the consideration.
- Receipt of immovable property by an individual or HUF from any persons other than relatives for a consideration less than stamp duty value and aggregate value more than Rs. 50 lakhs has been brought under the tax net and to be taxed as Income from other sources in the hands of the recipient.
  - Stamp duty value will be considered as on date of agreement fixing the amount of consideration as long as the consideration, or part thereof, has been paid by any mode other than cash, on or before date of agreement
  - Otherwise, the date of registration of agreement will be considered.
- Keyman insurance policy assigned to any person before its maturity with or without consideration will not enjoy the exemption available for a life insurance policy and will be taxed in the hands of recipient on receipt of sum insured.
- Raising the limit of percentage of eligible premium (from 10% to 15%) for life insurance policies up to 15% of the actual sum assured in respect of persons with disability or disease.

Direct Tax Proposals

"Corporate Taxes"

(1/2)

- No changes suggested in corporate tax structure. (please refer rate card)

- Companies which are falling in the Minimum Alternate Tax (MAT) and Alternate Minimum Tax (AMT) regime are also required to pay surcharge with taxable income exceeding Rs. 1 crore.

- Concessional tax rate of 15% on dividends received by domestic company from its overseas subsidiary extended for one more year. Provided it holds 25% or more equity shares in its overseas subsidiary.

- Additional income-tax @ 20% payable on income distributed by company for buy back of unlisted shares applicable with effect from June 1, 2013 – Shareholders exempt from tax on such income.

  - Tax payable on difference between consideration paid on buy back of shares and amount received by company at the time of issue of such shares.
  - No deduction allowed on the distribution tax paid by the company.

- It is proposed that the amounts paid / appropriated by way of royalty, privilege fee, license fee, service charge etc by State Government Undertakings to the State Government will not be deductible as expense.

- In respect of transfer of land and building held as stock in- trade, if consideration is less than the assessed stamp duty value, then such stamp duty value will be deemed to be the full value of consideration taxable as business income. Earlier these provisions were applicable only to immovable properties held as capital assets.

- Cash contribution to political party or electoral trust not entitled to deduction.

Direct Tax Proposals
"Corporate Taxes"
(2/2)

- Presently, an exemption is available for income earned by SEBI registered VCF (Venture Capital Fund) and VCC (Venture Capital Company) from investment made in VCU (Venture Capital Undertaking i.e. investee company) as defined in Section 10(23FB) of the Income-Tax Act, 1961.

  - This exemption will continue for VCF and VCC registered under SEBI (Venture Capital Funds) Regulations, 1996. Now, income earned by companies and trusts registered as VCF under Alternative Investment Funds (AIF) Regulations from investments made in VCU shall be exempt from tax under Section 10(23FB) of the Act, only subject to fulfillment of the following conditions:

    a) at least two-thirds of the investible funds are invested in unlisted equity shares or equity linked instruments of VCU (as defined in the AIF Regulations);
    b) no investment has been made by such AIFs in a VCU which is an associate company;
    c) the units or the shares of the AIF are not listed on a recognised stock exchange

  - This amendment will take effect retrospectively from F.Y. 2012-13

- In regards to computation of DDT in order to avoid the cascading effects of taxation, the amount of dividend declared by the Domestic Company will be reduced by the following amounts of dividend, if any, received by it during the financial year-

  - Dividend received from domestic company if the dividend is received from its subsidiary (i.e. in which it holds more than 50 percent of equity shares and the subsidiary has paid DDT payable under section 115-O)
  - Dividend received from foreign company (effective from June 1, 2013) if the dividend is received from its subsidiary (i.e. in which it holds more than 50 percent of equity shares and the tax on such dividend is payable by the domestic holding company under section 115BBD of the Act).
  - Dividends paid to any person for and on behalf of a New Pension System Trust.

Direct Tax Proposals

"Incentives & Relief"

(1/2)

- A special taxation regime proposed from June 1, 2013 for taxation of securitisation entities set up as a trust from the activity of securitisation as follows:

  The income from the activity of securitisation of such trusts regulated either by SEBI or RBI to be exempt from taxation.

  The securitisation trust to pay an additional income-tax at the rate of 25% on the distribution made to investors who are individual and HUF, and at the rate of 30% in other cases. No such additional income-tax is payable if the income distributed by the securitisation trust is received by a person who is tax-exempt.

  Consequent to the levy of distribution tax, all the distributed income received by the investor from the securitisation trust to be exempt from tax.

- Clarification for amount to be eligible for deduction as bad debts in case of banks has been made whereby it is proposed that claims for bad debts written off by banks and specified financial institutions to be allowed only to the extent the write off exceeds the credit balance in provision for bad and doubtful debts account.

  Further, the above mentioned mechanism is to be considered for all types of advances without any distinction between rural advances and other advances.

- Extension of time period for one more year up to March 31, 2014 for approval of recognized Provident Fund by Commissioner of Income Tax.

- Sunset clause for availing tax holiday for power sector extended by one more year.

- Additional deduction (over and above enhanced depreciation claim) of 15% for investments for over Rs. 100 crores on new assets (specified plant or machinery) over next 2 years for manufacturing companies.

  - Assets to be held for a period of 5 years, failing which deduction availed shall be treated as income.

Direct Tax Proposals

"Incentives & Relief"

(2/2)

- Additional deduction for wages paid to new workmen

  Presently, deduction of an amount of 30% of additional wages paid to new regular workmen (100 or more) employed is allowed from profits derived by an Indian company from "any industrial undertaking engaged in manufacture or production" of article or thing. This deduction is allowed for three financial years including the year of employment of new workmen.

  Now, it is provided that the above deduction will be allowed to an Indian company deriving profits from manufacture of goods in a "factory" as defined under the Factories Act, 1948. No deduction will be allowed in case the factory is hived off, transferred from another existing entity or acquired by amalgamation.

  Presently the tax payers used to include administrative employees also under this benefit scheme, which now seems to be available only for workers actually involved in the production process.

- Deduction of contribution to National Children's Fund increased to 100% (previously 50%) of the amount of donation.

- Exemption to National Financial Holdings Company Limited, a central Government undertaking in respect of its income accruing, arising or received on or before March 31.2014.

- Income by way of contribution from a depository, of the Investor Protection Fund set up by the depository in accordance with regulations prescribed by SEBI will be exempt from tax.

Direct Tax Proposals

"Other Proposals"

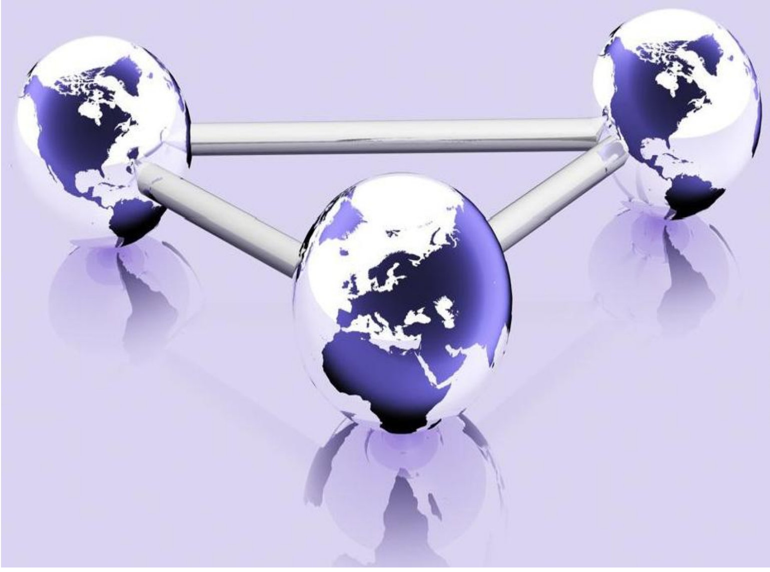
(1/1)

- Commodities Transaction Tax (CTT) to be allowed as a deduction if Income from such transaction is offered as Business income.
- Electronic filing of return of net wealth now has been provided for specified class of persons (to be notified).
- Return filed without payment of tax (along with interest, if any) to be considered as defective return.
- Seized assets now not to be allowed to be adjusted against advance tax liability.
- Definition of 'tax due' that can be recovered from directors/partners of a private company/limited liability partnership in liquidation widened, so as to include in its ambit interest, penalty or any other sum as payable under the Act.
- The scope of powers to direct a special audit has been expanded and now it would not restrict to just cases of nature and complexity of the accounts but also in cases of volume of accounts, doubting the correctness of the accounts, multiplicity of transactions, specialized nature of business activity of the taxpayer etc.
- The definition of agricultural land has been amended in the current budget. The three criteria of land being considered as an agricultural land has been depicted in the table below:-

Kilometers from the local limits of any Municipality or cantonment board	Population* Criteria
Less than 2 Kms.	10,000 but not exceeding 1,00,000
Less than 6 Kms.	1,00,000 but not exceeding 10,00,000
Less than 8 Kms.	10,00,000 or more

* Population means population according to the last preceding census published before the 1st day of the previous year.

- The period from where the court has set aside the direction of Assessing officer has been excluded while calculating the period for the completion of assessments and reassessments. Similarly for the case of cross border transactions, the date on which a reference for exchange of information is requested is received by the commissioner or one year, whichever is less is excluded.
- If a person fails to file the annual information return within the prescribed time, penalty of Rs. 100 per day of delay has been imposed and if the AIR is not submitted within specified time mentioned in the notice then he would be liable for penalty of Rs. 500 for every day from the expiration of time mentioned in the notice till the failure continues.



Direct Tax Proposals

"International Taxation"

(1/1)

- No amendments in transfer pricing provisions has been suggested.
- Base withholding tax on royalty and fees for technical services paid to non-residents enhanced from 10% to 25% (benefit being available under the Double Tax Avoidance Agreements also to be considered).
- General Anti Avoidance Rules (GAAR) has been deferred by 2 years and will be effective from FY 2015-16.
  - Provisions of Treaty between respective countries prevail when GAAR is invoked.
  - Only arrangements which have the main purpose (as opposed to one of the main purposes) of obtaining tax benefit would be covered by GAAR.
  - Directions of the Approving Panel (term for 1 year) to be binding both on the taxpayer as well as the income-tax authorities (without right to appeal).
  - CBDT empowered to make rules in relations to GAAR provisions and matters relating to Approving Panel.
- Last year, to prevent misuse of tax treaties by residents of a third country (also referred to as treaty shopping), the Finance Act provided that Tax Residency Certificate (TRC) must be obtained in order to claim tax benefits.

  Now, a specific provision has been proposed within the Income Tax Act that such a certificate will be a necessity but not sufficient condition for claiming treaty benefits and it is introduced with retrospective effect from April 1, 2012.

  Now the budget proposal casts uncertainty and avoidable litigation in regard to eligibility of treaty benefits.
- Reduced withholding tax of 5% applicable for rupee denominated long term infrastructure bonds issued by an Indian Company to Non-residents.
  - Where the non-resident deposits foreign currency in a designated bank account and such money as converted in rupees is utilized for subscription of long term infrastructure bonds issued by the Indian Company.
  - Effective from June 1, 2013.

Indirect Tax Proposals

"Excise"

(1/2)

- No Change in excise duty rate of 12%.
- Relief to ready-made garment industry. Branded retail garment still enjoy the privilege of zero excise duty. The zero excise duty routes will be in addition to the CENVAT route now available.
- In case of Cotton, zero excise duty at fibre stage and in case of spun yarn (manmade fibre), duty of 12% will be charged at the fibre stage.
- Handmade carpets and textile floor coverings of coir and jute are now exempt from excise duty.
- Relief to ship building industries by way of exemption in excise duty. Consequently, there will be no CVD on these ships & vessels when imported.
- Excise duty on cigarettes increased from 10% to 18 %(similarly increased on cigars, cheroots and cigarillos) except on cigarettes not exceeding length of 65mm.
- Excise duty on SUVs increased from 27% to 30%. Exception for SUVs registered as taxies which continue at the same excise duty of 27%.
- Excise duty on marble tiles and slabs increased from Rs. 30 per square meter to Rs.60 per square meter.
- 4% excise duty levied on silver manufactured from smelting zinc or lead.
- Excise Duty on diesel motor vehicles for the transport of goods is being reduced from 14% to 13%.
- Excise duty on mobile phones priced above Rs. 2,000/- increased from 1% to 6%.
- An abatement of 35% excise duty will be available on MRP of branded ayurvedic medicaments or homeopathy or bio-science system.
- Full exemption from excise duty is being provided to intermediate goods manufactured and consumed captively by exempted units under area based exemption in Himachal Pradesh & Uttarakand.

Indirect Tax Proposals
“Excise”
(2/2)

Common Procedure for Excise Duty and Custom Duty

- In cases where stay is granted by the Tribunal but the related appeal is not disposed off within a period of 180 days from the date of grant of stay then based on an application made by the party, the Tribunal can exceed the stay for further period of 185 days. However the stay will stand vacated if the appeal is not disposed of within the total period of 365 days from the date of grant of the stay.
- The question/doubts regarding where an advance ruling can be sought is proposed to be amended to cover the question of ‘admissibility of credit of service tax paid or deemed to have been paid on input service.’ Public limited companies can now seek permission in advance ruling.
- Single Bench Tribunal can now hear and dispose off appeals upto Rs.50 lakhs.
- An offence in case of duty evasion in excess of Rs.50 lakhs (previously Rs. 30 lakhs) shall be cognizable and non bailable and punishable with seven years of imprisonment along with fine.

Changes in Excise Duty

Name	Existing	Proposed
SUVs	27%	30%
Marbles tiles and slab	Rs.30 per sq.mtr.	Rs. 60 per sq.mtr.
Mobile handsets priced above ₹2000/-	1%	6%
Silver manufacture by smelting zinc or lead	0	4%
Cigarettes(cigar, cheroots and cigarillos)	10%	28%
Ships, tugs pusher craft, dredgers and other vessels	6%	0

Indirect Tax Proposals “Customs” (1/3)

- No Change in the peak rate of Basic Custom Duty at 10%.
- Duty on specified machinery (20 types of machinery) for manufacturing of leather and leather goods including footwear reduced from 7.5% to 5%.
- Duty on pre-forms precious (rough, incomplete and unused) to semi-precious stone reduced from 10% to 2%.
- Limit of duty free jewelry in case of person returning from abroad for good has been increased to Rs. 50,000/- for men and Rs.100,000/- for female.
- Basic custom duty on Set Top Boxes increased from 5% to10 %.
- Basic custom duty on raw silk increased from 5% to 15%.
- Duties on Steam Coal and Bituminous Coal equalized and 2% custom duty and 2% CVD will be levied on both kinds of coal.
- Basic custom duty on imported luxury goods such as high end motor vehicles with value more than 40000 US dollars and engine capacity exceeding 3000cc for petrol and 2500cc for diesel vehicle has been increased from 75% to 100%.
- Basic custom duty on motor cycle with engine capacity of 800cc or more has been increased from 60% to 75%.
- Basic custom duty on textile machinery and parts being reduced from 7.5% to 5%.
- The export duty on bauxite mineral is now 10% (previously nil).
- No custom duty on testing or examination of any sample goods which is consumed or destroyed in course of activity.

Indirect Tax Proposals

"Customs"

(2/3)

Change In Custom Duty Rates

Name of the Item	Existing	Proposed
Specified machinery used in leather and footwear industry	7.5%	5%
Specified textile machinery & parts	7.5%	5%
Pre-forms precious stone to semi precious stone.	10%	2%
De- hulled Oat Grains	30%	15%
De-oiled rice bran oil	10%	0%
Hazel Nuts	30%	10%
Bituminous Coal	5%	2%
CVD on Bituminous coal	6%	2%
Ilmenite unprocessed	10%	5%
Stainless Steel wire cloth Stripe	10%	5%
Wash coat used in manufacture of catalytic	7.5%	5%
Set Top Boxes	5%	10%
Raw silk	5%	15%
Steam Coal	0%	2%
Bauxite mineral	0%	10%
CVD on Steam coal	1%	2%
Motor boats/Yachts	10%	25%
Used Motor vehicles	100%	125%
New Motor vehicles	75%	100%
Motor cycle	60%	75%

Indirect Tax Proposals
“Customs”
(3/3)

- Interest free period for payment of import duty for clearing of goods from bonded warehouse has been reduced from 5 days to 2 days.
- The period for storage of imported goods, pending clearance in public and private warehouse has been restricted to 30 days. It may be extended by the approval of the Commissioner of Customs for further period but not exceeding 30 days at a time.
- Any warehouse goods may be exported without payment of import duty if a shipping bill or a bill of export or label or declaration of goods accompanying its description, quantity or value shall be deemed to be entered into export or import.
- The following offences are now non-bailable :
    - if the assessee tries to evade custom duty exceeding Rs.50 lakhs.
    - Import or export of any goods which are prohibited having market value exceeding Rs.1 crore.
    - Fraudulently availing of any exemption from duty, if the amount of drawback or exemption from duty exceeds Rs.50 lakhs.

Indirect Tax Proposals

"Service Tax"

(1/4)

Summary of changes in Service Tax:

It seems that due to the large scale revised amendments introduced quite recently, the FM did not propose any major changes in Service Tax Regime.

Rate of Service Tax remains unchanged at 12%.

Rationalization of Exemption Limit :

- The definition of "charitable activities" is being amended to exclude, "any other object of General Public Utility".

  Threshold exemption for Charitable Organizations is being reduced from Rs.25 Lakhs to Rs.10 Lakhs.

- Air conditioned Restaurants are under the ambit of service tax as proposed in this Budget, previously only restaurants having;
  Air conditioned or heating facility AND Having license to serve liquor were liable to levy Service Tax.

This Scope has been widened to include all Air conditioned restaurants irrespective of the fact whether they have license to serve alcohol or not.

Withdrawal of Exemptions:

- Exemption in renting of immovable property by specified educational institutes will not be available now and Service Tax will be levied accordingly on the said activity.

- Permitting the use or enjoyment of a copyright relating to Cinematography Films was fully Exempted but as per Union Budget 2013 this exemption is now restricted to exhibition of Cinematographic Films only in a Cinema Hall or a Cinema Theatre.

- The exemptions for vehicle parking to general public has been excluded

- Repair or maintenance service of government aircrafts is being withdrawn.

Indirect Tax Proposals
"Service Tax"
(2/4)

Addition to Negative List:

- Apart from the mega exemption list of negative services covering 17 Negative services under it, two more services are added to make it a list of total 19 Negative Services. Newly added 2 negative services in Budget 2013 are as under:
  1) Vocational courses provided by institutes affiliated to the State Council of Vocational Training will not be considered as a Service.
  2) Testing activities in relation to agricultural produce will no longer be considered as Service.
- Exemption on Services provided by goods transport agency extended to transportation of the following additional goods :
  1) Agricultural produce and food stuff other than alcoholic beverages
  2) Chemical fertilizer and oil cakes
  3) Newspaper or magazines registered with the registrar of newspaper.
  4) Defence or military equipments

Reduction in Abatement for High-End Constructions:

- Currently, in cases of revenue from construction contracts, where value of land is included in the amounts charged, a uniform 75% rebate is provided and a concessional rate of 3.09% Service Tax is levied.
- This Budget proposes to reduce the abatement from 75% to 70%, thereby increasing the service Tax rate to 3.708% in case of High End Construction.
- "High-End Constructions" is defined as:
  Homes and Flats with a carpet area of 2,000 sq.ft. or more
  OR
  Homes and Flats valuing Rs. 1 crore or more
- In case of, revenue earned from sale of other than High End Constructions Homes and Flats, the earlier abatement(75%) and Service Tax Rate (3.09%) will continue.

Indirect Tax Proposals

"Service Tax"

(3/4)

Certain Legislative Changes:

- Maximum Penalty for failure to obtain registration is restricted to Rs.10,000/- only.
- A new section is being introduced specially to impose penalty on directors and officials of the company for specified offences in cases of willful actions.
- New Section has been introduced which provides power to arrest a person for specified offences mainly Non-Payment of collected service tax.
- Amendments are being introduced to prescribe revised punishments for offences as under:

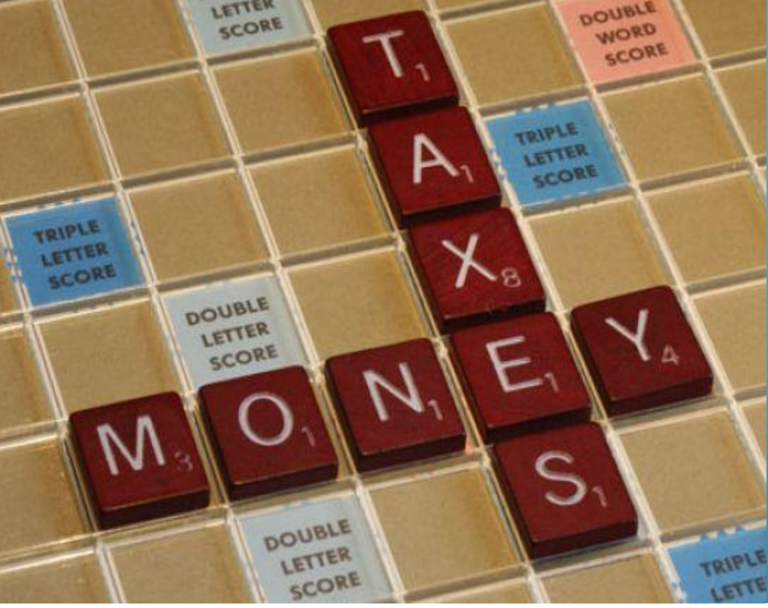
Sr. No.	Offence	Compounding amount
1.	Knowingly evades the payment of Service Tax	Where the amount exceeds Rs.50 lakhs, punishment shall be for a term which may extend upto 3 years but shall not be less than six months
2.	Avails and utilizes credit of taxes or duty without actual receipt of taxable service or excisable goods either fully or partially in violation of the Rules	
3.	Maintains false books of accounts or fails to supply any information which he is required to supply or supplies false information.	
4.	Collects any amount of service tax but fails to pay the amount so collected to the credit of the Central Government beyond a period of six months from the date on which such payment becomes due	Where the amount exceeds Rs.50 Lakhs, punishment shall be imprisonment for a term which may extend upto seven years but not less than six months.

<u>Voluntary Compliance Encouragement Scheme</u>

Government is unable to receive revenues upto their expectations in Service Tax as assesses are not regular in depositing Service Tax for which they are ought to be liable and onerous. Past data reveals that only 7,00,000 out of nearly 17,00,000 registered service tax assesses were filing their returns.

To cope up with the situation Finance Minister introduces a new scheme named as "Voluntary Compliance Encouragement Scheme" U/S 94, in which :

- Assesses can voluntarily declare their Service Tax dues payable for the period October 1, 2012 to December 31, 2012.
- The declarant is liable to pay only the principal amount of pending Service Tax; in other words no interest or penalty will be levied on such declaration.



Indirect Tax Proposals

"Service Tax"

(4/4)

Persons Eligible to make declaration:

Any person may declare his tax liability in respect of which no notice has been issued before March 1, 2013 to assesses for determination of his tax liability.

Non-Eligibility or rejection of declaration:

1. Any person who has furnished return and truly disclosed his tax liability but has not paid such dues entirely or partly.
2. A person to whom a notice or an order of determination has been issued in respect of any period on any issue than no declaration can be made of his tax dues on the same issue.
3. A person against whom any investigation or inquiry in respect of a service tax not levied or not paid is pending as on March 1, 2013, then the authority shall reject the declaration if reasons are recorded in writing.

Procedure of making declaration and payment of tax dues:

- A person may make a declaration to the designated authority on or before December 31, 2013.
- The declarant is allowed to make payment in one or two installments on or before, December 31, 2013, he shall pay not less than 50% of the tax dues so declared.
- The tax dues or part thereof remaining to be paid after the payment made shall be paid on or before June 30, 2014.
- But where the declarant fails to pay the said tax dues or part thereof on or before June 30, 2014, he shall pay the same on or before December 31, 2014 along with interest for the period of delay commencing from July 1, 2014.

General Notes:

- Amount paid in pursuance of such declaration shall not be refundable under any circumstances.
- On failure of payment of tax dues so declared, either fully or in part, the same shall be recovered along with interest.

Key Sectoral Analysis (1/4)

Textiles:-

- Excise duty to be removed on readymade garments.
- The most sought-after Technology Upgradation Funds Scheme still continued in the coming years with huge investment of Rs.1,51,000 crores.
- Allocation of Rs.50 crores to textile corpus to incentivize setting up of Apparel parks within the SITPs (Scheme of Integrated Textile Parks) to house apparel manufacturing units.
- A new scheme called the Integrated Processing Development Scheme is introduced and will be implemented to address the environmental concerns of textiles industry.
- Working capital and term loan can be availed by handloom sector at a concessional interest rate of 6 % p.a.
- Scheme of Fund for Regeneration of Traditional Industries (SFURTI) extended to 800 clusters during the next economic phase. 4,00,000 artisans are expected to be benefited.

Banking and Finance:-

- All scheduled commercial banks and RBIs are on Core Banking Solution (CBS) and on the electronic payment systems (NEFT and RTGS).
- Gross market borrowings are stood at Rs.6.29 lakh crores, higher by Rs.70,000 crores or 12.5% than previous year which suggest tremendous liquidity shortage in the system, likely to impact profitability of banks.
- Strict adherence of Basel III norms suggested for Public Sector Banks. By infusing liquidity into the system proposed allocation amounted to Rs.14,000 crores.
- Farmers loans at a subsidize rate of 4% has been extended to private banks which is a negative for the private banks.
- India's first of its own Women Centric Public Sector Bank is proposed with an initial capital base of Rs.1,000 crores. All PSU banks to have ATMs at all their branches by March 31, 2014.
- Post offices to be part of core banking solutions. Rs.532 crores will be provided to modernize the country's postal network.
- Proposed to increase the corpus of state-owned Small Industrial Development Bank of India (SIDBI) and giving them the boost by funding Rs.100 crore which gives relief to a certain extent.

Key Sectoral Analysis (2/4)

Real Estate and Construction:-

- Residential property buyers getting an additional interest benefit of Rs.1 lakh (over and above interest deduction u/s. 24 of Income Tax Act, 1961) on first time home loans sanctioned by Financial Institutions up to Rs.25 lakhs.
- Bungalows and flats with a carpet area of 2,000 sq. ft. or more **or** of a value of Rs.1 Crore or more are high end construction where the component of service is greater. Hence, the rate of abatement has been reduced from 75% to 70%.
- TDS made applicable on sale of immovable property where consideration exceeds Rs.50 lakhs (exception – agricultural land).
- 25% increase in allocation for rural housing fund amounting to Rs.6,000 crores. Also, setting up of urban fund with an outlay of Rs.2,000 crores.
- Setting up a regulatory authority for roads. Aiming a target of 3000 kms. of project award in first half of 2014 in Gujarat, MP, Maharashtra, Rajasthan and Uttar Pradesh.
- These funds will provide appropriate excess credit and surplus to developers.
- ECBs allowed in low cost borrowings.

Capital Market and Investment:-

- To adopt a simpler approach to KYC norms.
- Where an investor has a stake of 10% or less in company, it will be treated as FII and, where an investor has a stake of more than 10%, it will be treated as FDI. FII are generally investors, whose primary interest is to trade in stocks of companies and not to be involved in the management of the investee companies. FDI investors, are viewed as long term strategic investors invested in the growth of the company including being participative in its operations and management. Prima facie, it would appear that the intent is to promote FDI investment.

Key Sectoral Analysis (3/4)

Angel investors bring both experience and capital to new ventures, they will be recognized as Category I AIF (Attractive Investment Fund) venture capital funds. This coupled with direct tax benefits seems a welcome move.

Small and medium enterprises, including start-up companies, will be permitted to list on the SME exchange without being required to make an IPO, but the issue will be restricted to informed investor.

In order to developing the debt market, stock exchange will be allowed to introduce a dedicated debt segment on the exchange.

The list of eligible securities in which pension funds and provident funds may invest will be enlarged to include exchange traded funds, debt mutual funds and asset backed securities.

FII will be allowed to participate in exchange traded currency derivative segment to the extent of their Indian rupee exposure in India. FII will also be permitted to use their investment in corporate bonds and Government securities as collateral to meet their margin requirements.

Government has amended provisions of section 91 which requires "Tax Residency Certificates" for availing benefits of DTAA. In case the rules are stringent then it may lead to a tremendous flight of capital out of India, having a major impact on stock prices.

Summation:-

Sector	Proposal	Impact
Education	• 17% increase in allocation of expenditure on education which is stand at Rs.65,800 crores that includes Rs.27,200 crores expenditure on Sarva Shiksha Abhiyan.	Positive
Irrigation	• Extra Irrigation potential of 1,80,000 hectares. • Fresh allocation for micro-irrigation facilities in the country.	Positive

Key Sectoral Analysis (4/4)

Sector	Proposal	Impact
Automobiles	• Increased excise duty on SUVs to be 30% from 27%, • Custom duty to be 100% from 75% on heavy motor vehicles and on motorcycle with engine capacity of 800cc or more from 60% to 75%.	Negative
Healthcare	• Increased allocation to launch health mission, provision for dissemination of free drugs. • 35% abatement on MRP based branded medicaments.	Positive
Defense Supplier	• Govt. increases defense spending to Rs.2.03 lakhs crores. • This will include Rs.86,741 crores for capital expenditure.	Positive
Power	• Tax holiday for the power sector for one more year. • Government will construct transmission system from Srinagar to Leh at a cost of Rs.1,840 crores to improve power supply in the Leh-Kargil division. • Government has introduced general based incentives for wind energy projects and Rs.800 crores is allocated to new and renewable energy.	Positive

Gujarat Budget (1/2)

Our reactions on Gujarat Budget:

The budget raised the turnover cap for lump sum VAT payment for dealers from Rs. 50 Lacs to Rs. 75 Lacs and gives incentive by way of professional tax exemption for Salaries up to Rs. 6,000/- p.m. However it may have overlooked the fact that even for promoting affordable housing, by way of more FSI, Stamp duty still remains unchanged and remains as high as 4.9% which becomes hurdle for "Roof Over Every Head".

We can say this year's budget as "Young Centric Budget" as youth becomes major focus for the government and provision of Rs.17091 crore's was made for education department and Rs.1053 Crore for Labour and Employment and Rs.349 crore's for Sports and Cultural Activities.

Which things get more costly?

Product	Present Tax (%)	Increased Tax Rate (%)
Cigarette	25	30
Sale from carbon Credit	00	05
Second Hand Two-Wheeler	00	01 (Max Rs.500)
Second Hand Commercial Vehicles	00	01 (Max Rs.5000)

No Tax Now:

- On Educational Instruments which includes Pencil, Foot Ruler, Slide Ruler, Mathematical Instruments, Boxes, Color Boxes, Erasers, Pencil Sharpeners.
- Agarbatti Products
- Minor Irrigation Equipments

Multiplexes now not under the roof of Lump sum tax:

The Gujarat State Government has curtailed the benefit of lump sum tax provisions in case of multiplexes. Lump sum tax provisions are available only for those video houses that charge Rs.30 or less per seat and has 125 seats or less showcasing only in a single screen.

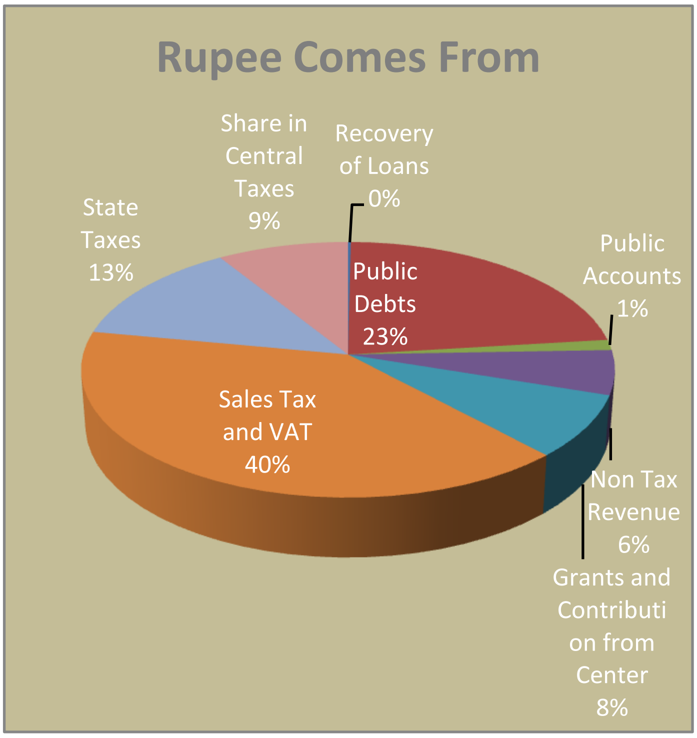
Gujarat Budget

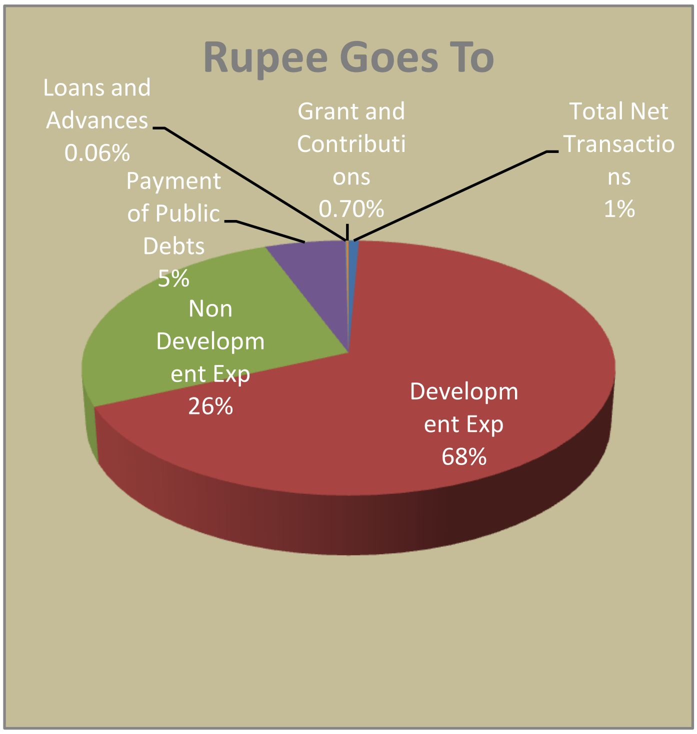
(2/2)

Increase in the Captive Power Per Unit Price

The State Government has proposed increase in the electricity duty on captive power producers by additional 15 paisa.

Certain Increased Allocations in this budget:





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